

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 PA-02 DOE-15 SOE-02 AGRE-00 L-03 H-02
/134 W

-----073872 212032Z /40

R 211821Z MAR 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6977
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING MARCH 20)

REF.: BONN 4655

1. BUNDESRAT OPPOSES ADDITIONAL MEASURES TO STIMULATE
ECONOMY:
IN A MARCH 17 ANNOUNCEMENT APPROVING THE GOVERNMENT'S
ECONOMIC REPORT AND THE REPORT OF ECONOMIC EXPERTS,
THE BUNDESRAT (UPPER HOUSE OF PARLIAMENT) TOOK THE
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POSITION THAT ANY NEW CYCLICAL PROGRAMS WERE "FOR THE
TIME BEING NOT NECESSARY". THE BUNDESRAT JUDGES THAT
TAX REDUCTIONS AND FEDERAL AND LOCAL GOVERNMENT INVEST-
MENT OUTLAYS ALREADY IN THE WORKS ARE A SUFFICIENT CON-
TRIBUTION OF THE PUBLIC SECTOR TOWARD BETTER ECONOMIC
AND EMPLOYMENT CONDITIONS. IN A REFERENCE TO THE
CURRENT WAGE NEGOTIATIONS, THE BUNDESRAT TERMS "RELATIONS

BETWEEN LABOR AND MANAGEMENT" AS NOW DECISIVE FOR ECONOMIC RECOVERY.

2. FOREIGN POSITION OF GERMAN BANKS:

IN ITS JUST-PUBLISHED MARCH MONTHLY REPORT THE BUNDESBANK ANALYZED RECENT DEVELOPMENTS OF FOREIGN TRANSACTIONS OF GERMAN BANKS. THE ANALYSIS SHOWS THAT THE VOLUME OF FOREIGN ACTIVITY OF GERMAN BANKS INCREASED RAPIDLY IN RECENT YEARS, BOTH WITH REGARD TO TRANSACTIONS OF RESIDENT BANKS WITH FOREIGN BANKS (INCLUDING FOREIGN SUBSIDIARIES AND BRANCHES OF GERMAN BANKS) AND IN TERMS OF THE BUSINESS VOLUME OF GERMAN FOREIGN SUBSIDIARIES AND BRANCHES (ELIMINATING TRANSACTIONS WITH PARENT BANKS). AT THE END OF 1977 THE VOLUME OF GERMAN BANKS FOREIGN ACTIVITY (EXCLUDING TRANSACTIONS OF THEIR FOREIGN AFFILIATES) WAS THREE TIMES LARGER THAN AT THE END OF 1973, THE VOLUME OF DOMESTIC TRANSACTIONS OF GERMAN BANKS WAS ONLY 1 1/2 TIMES LARGER OVER THE SAME PERIOD. DETAILED DATA ON THE BUSINESS OF FOREIGN SUBSIDIARIES AND BRANCHES OF GERMAN BANKS IS NOT AVAILABLE BUT THE BUNDESBANK ESTIMATED THAT THE BUSINESS VOLUME OF LUXEMBOURG SUBSIDIARIES OF GERMAN BANKS INCREASED FROM DM 13 BILLION AT THE END OF 1972 TO ABOUT DM 63 BILLION AT THE END OF 1976. TRANSACTIONS OF FOREIGN BRANCHES OF GERMAN BANKS ROSE EVEN MORE SHARPLY, INCREASING FROM DM 4 UNCLASSIFIED

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BILLION AT THE END OF 1972 TO DM 47 BILLION BY YEAR END 1977. IN RECENT YEARS THE FOREIGN POSITION OF GERMAN BANKS DEVELOPED AS FOLLOWS:

FOREIGN POSITION OF GERMAN BANKS

(AT YEAR END; IN DM BILLION)
1973 1974 1975 1976 1977

ASSETS

SHORT-TERM 26.2 37.3 50.2 51.9 47.9
LONG-TERM 14.7 17.9 32.7 43.1 54.7

TOTAL 40.9 55.2 82.9 95.0 102.6

LIABILITIES

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/134 W

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R 211833Z MAR 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6978
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
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AMEMBASSY ROME
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SHORT-TERM	33.9	35.3	46.8	55.1	59.3
LONG-TERM	9.3	11.0	13.4	18.4	23.6

TOTAL	43.2	46.3	60.2	73.5	82.9

BALANCE

SHORT-TERM	-7.7	2.0	3.4	-3.2	-11.4
LONG-TERM	5.4	6.9	19.3	24.7	31.1

TOTAL	-2.3	8.9	22.7	21.5	19.7

AT THE END OF 1977 GERMAN BANKS SHORT-TERM ASSETS AND
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LIABILITIES WERE PRINCIPALLY DENOMINATED EITHER IN

DEUTSCHEMARKS (46 PERCENT OF ASSETS AND 56 PERCENT OF LIABILITIES) OR IN US DOLLARS (44 PERCENT OF ASSETS AND 36 PERCENT OF LIABILITIES). A COUNTRY BREAKDOWN REVEALS THAT 43 PERCENT OF SHORT-TERM ASSETS AND 37 PERCENT OF SHORT-TERM LIABILITIES WERE HELD WITH COUNTRIES IN WHICH EITHER FOREIGN BRANCHES AND SUBSIDIARIES OF GERMAN BANKS ARE LOCATED (LUXEMBOURG) OR IN WHICH EUROMARKET BANKS ARE RESIDING (UNITED KINGDOM AND SWITZERLAND). TRANSACTIONS WITH BANKS IN THE UNITED STATES WERE SMALL. THE FOLLOWING IS A COUNTRY BREAKDOWN OF THE SHORT-TERM FOREIGN POSITION OF GERMAN BANKS AT THE END OF 1977 (IN PERCENT OF SHORT-TERM ASSETS AND SHORT-TERM LIABILITIES).

ASSETS	LIABILITIES
-----	-----
EURO MARKET COUNTRIES	43 37
BELGIUM-LUXEMBOURG	(17) (6)
UNITED KINGDOM	(22) (16)
SWITZERLAND	(5) (16)
OTHER EC COUNTRIES	16 14
---	---
UNITED STATES	4 4
OPEC COUNTRIES	4 11
NON-OPEC COUNTRIES	15 20
EAST BLOC COUNTRIES	7 2
REMAINDER 1/	10 11
100 PCT.	100 PCT.

1/ INCLUDING INTERNATIONAL ORGANIZATIONS

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3. CENTRAL BANK MONEY:

IN FEBRUARY SEASONALLY ADJUSTED CENTRAL BANK MONEY (CBM) INCREASED BY DM 1.3 BILLION TO DM 135.5 BILLION. THIS FOLLOWS A HEAVY INCREASE OF DM 2.4 BILLION IN JANUARY AND A DM 0.6 BILLION INCREASE IN DECEMBER. IF THROUGHOUT 1978 CBM WOULD CONTINUE TO INCREASE AT THE GROWTH RATE OF THE FIRST TWO MONTHS A 14.8 PERCENT INCREASE OF CBM WOULD RESULT FOR 1978 (1978 AVERAGE OVER 1977 AVERAGE).

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/134 W

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R 211857Z MAR 78
FM AMEMBASSY BONN
TO SECSTATE WWSHDC 6979
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
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AMEMBASSY ROME
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4. DIE WELT PROPOSES ECONOMIC STIMULATION/
EXCHANGE JTE DEAL WITH US:
DIE WELT (CONS.& OBSERVES IN ITS MARCH 1 EDITION
THAT, BECAUSE OF PRODUCTION LOSSES FROM STRIKES DURING
EARLY 1978, TVE FRG WILL NOT BE ABLE TO SHOW SATIS-
FACTORY PROGRESS TOWARD ITS GROWTH OBJECTIVE WHEN US/FRG
ECONOMIC PERFORMANCES COME UP FOR REVIEW, AS CALLED FOR
BY JOINT ANNOUNCEMENT OF MARCH 13. DIE WELT SUGGESTS
THAT THE FRG STRIKE A DEAL WHEREBY, IN EXCHANGE FOR
EFFECTIVE US MEASURES TO CORRECT ITS BOP DEFICIT, THE
FRG WOULD INVOKE THE TAX CUTTING PROVISIONS OF THE
ECONOMIC STABILIZATION LAW TO BOOST THE GERMAN ECONOMY.
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LEAD ARTICLE IN ECONOMIC SECTION OF WEEKLY DIE ZEIT
(INDEP.) ON MARCH 3 MADE SIMILAR PROPOSAL. DIE ZEIT
SUGGESTED FRG TAX CUTS IN EXCHANGE FOR US COOPERATION
TO CONTROL EURO-DOLLAR MARKET.

5. FOREIGN EXCHANGE MARKET:

DURING THE REPORTING PERIOD, FRANKFURT SPOT AND FORWARD
DOLLAR RATES DEVELOPED AS FOLLOWS:

	SPOT DOLLARS	FORWARD DOLLARS			
	(IN DM PER \$1.--)	(IN PCT. PER ANNUM)			
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH
	-----	-----	-----	-2-----	
MAR. 14	2.0480	2.0535	2.0470	N.A.	N.A.
15	2.0610	2.0532	.0505	N.A.	N.A.
16	2.0326	2.0356	2.0337	N.A.	N.A.
17	2.0307	2.0343	2.0375	-4.0	-3.9
20	2.0430	2.0447	2.0375	-3.9	-3.9
21	2.0485	2.0467	N.A.	N.A.	N.A.

6. MONEY MARKET:

RELATIVELY TIGHT MONEY MARKET CONDITIONS CONTINUED
DURING THE PERIOD UNDER REVIEW. CALL MONEY RATES ARE
ON AVERAGE SLIGHTLY ABOVE THE BUNDESBANK'S 3.5 PERCENT
LOMBARD RATE. THREE MONTH FUNDS ARE CURRENTLY CHEAPER
THAN ONE-MONTH BORROWINGS.
(FIGURES FOR MARCH 14,15 AND 16 ARE NOT AVAILABLE DUE
TO NEWSPAPER SHUTDOWN).
FOR THE PERIOD, FRANKFURT INTERBANK MONEY RATES WERE
AY FOLLOWS:

CALL MONEY	ONE-MONTH	THREE-MONTH
-----	-----	-----

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MARCH.17	3.50-3.60	3.55	3.50
20	3.50-3.60	3.55	3.50

7. BOND MARKET:

ON THE MARKET FOR DOMESTIC BONDS PRICES DECLINED FURTHER.
ACCORDING TO THE FAZ BOND INDEX YIELDS TO MATURITY OF
OUTSTANDING DOMESTIC BONDS DEVELOPED AS FOLLOWS:

COUPON	MARCH 20	MARCH 13
A-----	-----	-----
6 PERCENT	5.37	5."4
7 PERCENT	5.84	5.82
8 PERCENT	6.19	6.08

(DATA ON BONDS YIELDS NORMALLY REPORTED BY THE EMXASSY
ON THE BASIS OF PRESS ACCOUNTS WERE NOT AVAILABLE
DUE TO THE PRINTERS' LOCKOUT IN THE FRG.)

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R 211857Z MAR 78
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8. DM BORROWINGS OF VENEZUELA

THE REPUBLIC OF VENEZUELA HAS PRIVATELY PLACED DM 250 MILLION OF 6 PERCENT BONDS CARRYING A MATURITY OF 10 YEARS. IN ADDITION A GERMAN BANKING CONSORTIUM LED BY THE WESTDEUTSCHE LANDESBANK (WEST LB) HAS GRANTED A DM 500 MILLION LONG-TERM LOAN AT A FIXED INTEREST RATE TO THE BANCO CENTRAL DE VENEZUELA ACTING AS FINANCIAL AGENT FOR THE REPUBLIC OF VENEZUELA. DETAILS ON THE CONDITIONS OF THE LOAN HAVE NOT BEEN PUBLISHED.

9. REDUCTION IN INTEREST RATES:

ON MARCH 20, 1978, THE FEDERAL GOVERNMENT REDUCED YIELDS
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ON FEDERAL SAVINGS BONDS. WHEN HELD TO MATURITY, THE AVERAGE YIELD OF NEWLY-ISSUED 6 YEAR BONDS (ANNUAL INTEREST PAYMENTS) WILL BE 4.96 PERCENT AND 5.21 PERCENT FOR 7 YEAR BONDS (ACCUMULATED INTEREST). SALES OF HIGHER YIELDING BONDS (5.21 PERCENT AND 5.46 PERCENT, FOR 6 AND 7 YEARS, RESPECTIVELY) WERE DISCONTINUED MARCH 10, 1978 (SEE BONN 4655).

ALSO EFFECTIVE MARCH 20 THE FEDERAL GOVERNMENT REDUCED INTEREST RATES ON SO-CALLED "FINANZIERUNGSSCHAETZE". "FINANZIERUNGSSCHAETZE" ARE TREASURY NOTES NOT RETURNABLE BEFORE MATURITY WHICH ARE UTILIZED IN FINANCING THE FEDERAL BUDGET DEFICIT. THEY ARE SOLD AT A DISCOUNT IN DM 1,000 INCREMENTS TO DOMESTIC NON-BANKS IN DENOMINATIONS OF DM 1,000 - DM 100,000. THE REDUCTIONS WERE AS FOLLOWS:

	INTEREST RATES		YIELD	
	NEW	OLD	NEW	OLD
1 YEAR	3.45	3.55	3.57	3.68
2 YEARS	3.90	4.10	4.14	4.37

10. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

NON-SEASONALLY ADJUSTED FIGURES 1/

	NOV	DEC	JAN	FEB
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CONSUMER PRICES	3.7	3.5	3.2	3.1
INDUSTRIAL PRODUCER PRICES	1.7	1.7	1.3	1.0

1/ PERCENT CHANGE FROM PREVIOUS YEAR'S LEVEL.

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Message Attributes

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TAGS: EFIN, GE
To: STATE TRSY MULTIPLE
Type: TE
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